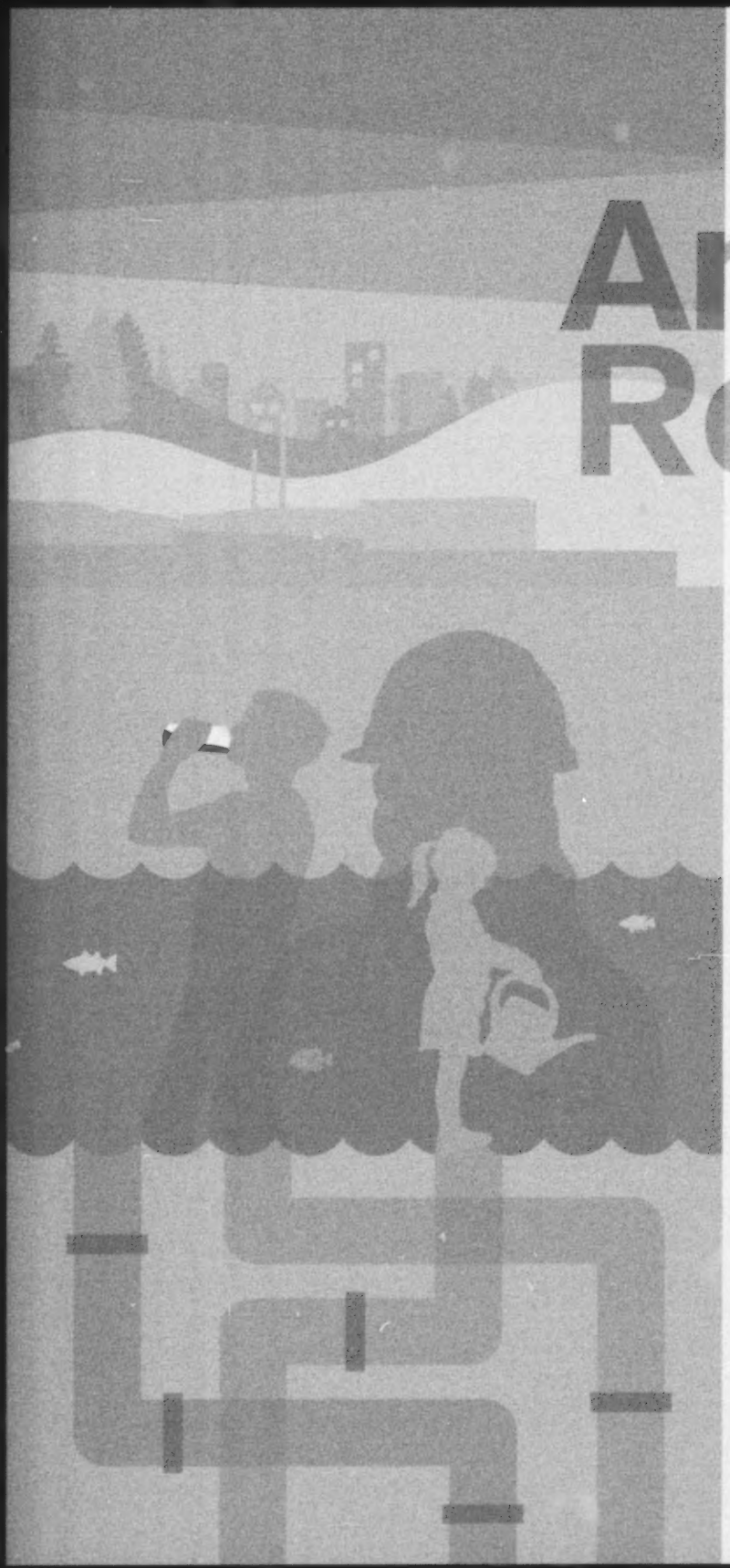

Annual Report 2014

ONTARIO CLEAN WATER AGENCY
AGENCE ONTARIENNE DES EAUX

Vision

A trusted world leader in water

Mission

To demonstrate service excellence through the delivery of safe, reliable and cost-effective clean water

Values

OCWA's values are focused on building TRUST with clients and other stakeholders. We strive to gain their trust by being:

Transparent
Open and honest communication of our business activities.

Safe
Deliver clean water services to protect our employees, the communities we serve, and the environment.

Respectful
Build sound relationships with our staff, clients and other stakeholders, by embracing diversity, acting responsibly and doing what is right.

Teamwork
Work together, share our collective expertise and be innovative in delivering exceptional results and achieving our mission.

Understanding
Confidence in the knowledge and ability of our people to meet the challenges of the water and wastewater industry. Continuously learn current trends and innovative technologies and/or processes in our industry.

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A Message

from Michael Garrett, Chair of OCWA's Board of Directors

2014 was a year of change and success for the Ontario Clean Water Agency (OCWA) on all accounts.

The beginning of the year brought new leadership and direction to the Agency, with Rob Andrews joining us as President and CEO. With Rob on board we embarked on our third decade serving the people of Ontario by evaluating the way that we manage our business and looking for ways in which we could better serve the needs of our clients. The results of this evaluation have led us to focus on doing what we do best, providing total water and wastewater solutions for our clients and delivering value to the people of Ontario.

Since joining the Agency, Rob has been working closely with the Board, the Ministry of Environment and Climate Change and senior managers from across the Agency, utilizing his considerable experience in the global water industry to develop a clear and comprehensive strategic plan that will guide and grow the Agency in the years to come. A key component of the strategy is the delivery of services that help our clients to better manage their water and wastewater systems, from operating and maintaining their water/wastewater facilities and other infrastructure to working with them to plan and implement capital improvements and establish financial plans, including rate structures, to ensure the long-term sustainability of their systems.

By taking a long-term approach to managing our clients' assets we can help them to extend the life of those assets and make changes that will reduce their operating costs over time. These changes will also help municipalities address pressing issues like climate change by reducing the energy required to run their facilities and improving their ability to withstand the effects of extreme weather events like flooding and severe winter storms.

In addition to delivering services that meet the long-term needs of our clients, we've been working hard to improve our internal systems and processes so that we can deliver those services more efficiently and effectively. Our work enhancing our information technology systems through the OCWA Tools Evolution Program (OTEP) will ensure that we have the information required to make timely decisions, increase operational efficiency and competitiveness, and act quickly on new opportunities. Likewise, the organizational review that we began at the end of the year will ensure that the Agency is best structured to deliver on our long-term strategic plan.

Having spent many years working in the municipal sector, I am confident that the changes that OCWA has made in the past year will provide significant benefits to our clients and to the Province as a whole. On behalf of the Board of Directors I would like to express my appreciation for the efforts that Rob, the Executive Management Team and Agency staff have made over the past year to make OCWA a strong, efficient organization that can deliver on the needs of our clients both now and in the future.

An Introduction

from Rob Andrews, OCWA's President and CEO

This past year has been interesting and exciting for the Agency and for me personally as well. I'm very pleased with how much we have accomplished in my first year as the Agency's President and CEO and excited about where we're headed in the years to come.

When I joined OCWA at the beginning of 2014 I saw the potential to restore the Agency's original goal of becoming a total solutions provider for our clients, delivering services that assist them at every phase of the water infrastructure life cycle, including planning, design, capital delivery and commissioning, and operations and maintenance through a long-term asset management approach. Over the past year I've been working closely with our Executive and Senior Operations Management Teams to ensure that we are providing value to our municipal, institutional, commercial and First Nation clients, not only through the delivery of our core operations and maintenance (O&M) services, but by delivering strategic advisory services such as energy management, process optimization, biosolids management and asset assessment and planning that will help them to ensure the sustainability of their water and wastewater systems.

I'm continuing to hear significant positive feedback about OCWA and our new direction from my municipal and industry contacts. There's a great deal of confidence about where we're headed as an organization and significant interest in how we can work with our clients to effectively manage their water and wastewater systems. As we move forward with implementing our strategic plan, I'm confident that our reputation in the industry will only continue to grow stronger.

Supporting our new growth initiatives has been a focus on improving how we manage our organization and deliver services to our clients while remaining financially independent and not relying on provincial subsidies. Making sure that we have the right people in the right places to deliver on our new strategies and increasing our productivity by finding more efficient ways to do things will allow us to better understand and deliver on the needs of our clients. Our end goal is to implement a consistent business model across the Agency that maximizes our considerable knowledge and expertise.

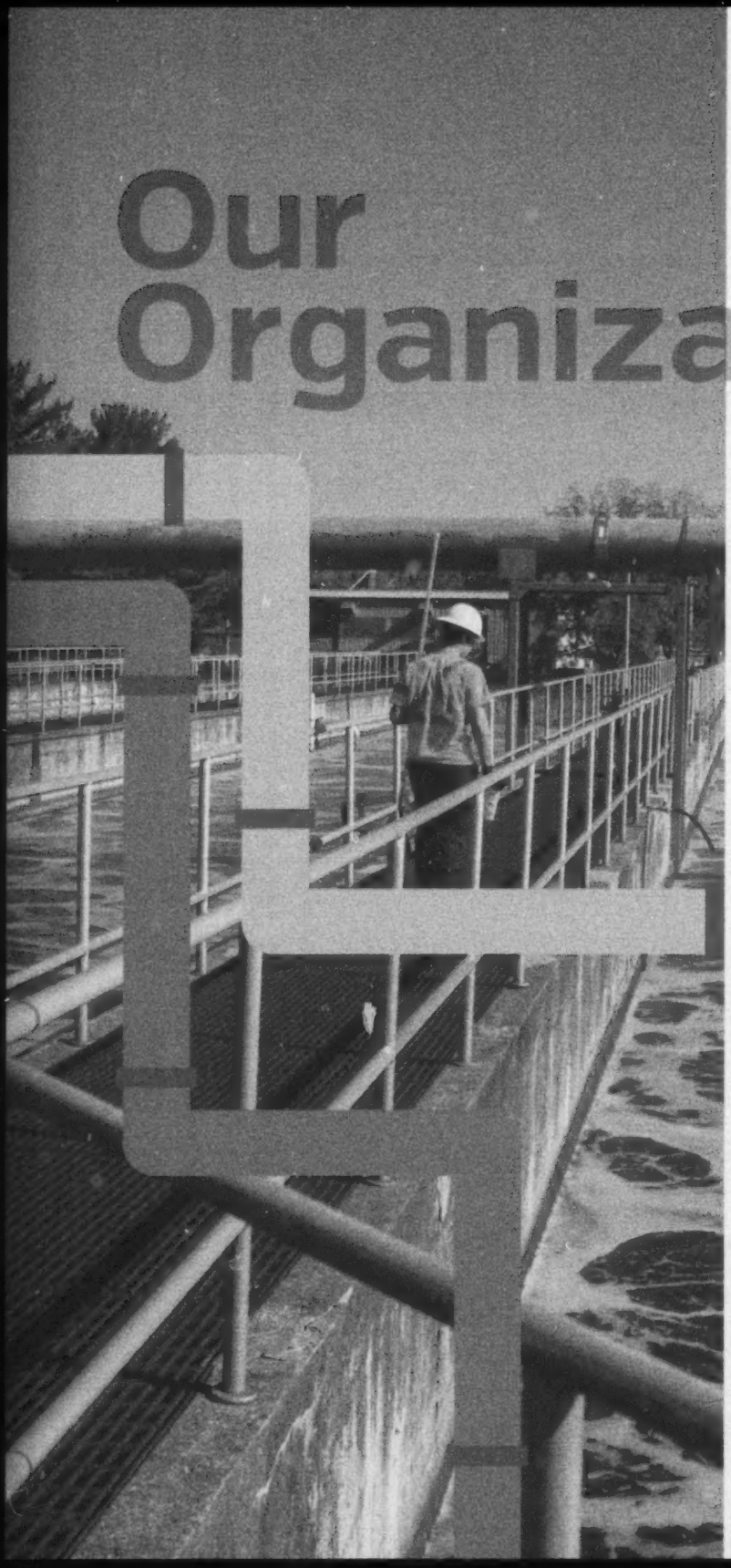
As a public Agency, we recognize that meeting our financial and business objectives is just one component of our overall success as an organization. Much of the value that we bring to our clients, our employees and the people of Ontario comes from the work that we do to protect the environment, improve public health, mitigate the effects of climate change, support innovation and provide opportunities for economic development and growth. Many of our new business initiatives support Provincial priorities such as climate change and green house gas (GHG) reduction, protecting the Great Lakes and improving drinking water for First Nations. We're also supporting the municipal water sector and the Province by acting as an early adopter of technology and furthering the development of "Made in Ontario" water and wastewater technology solutions.

Our public education initiatives have been a resounding success. The "I Don't Flush" public education campaign, which encourages the public to return unused medications to pharmacies as opposed to flushing them down the toilet/sink or throwing them in the garbage, has reached a potential audience of more than 26 million people. Our other major community education initiative, the OneWater™ education program is also off to a great start.

"We have made significant progress and are ready to implement a transformational change to become the preferred total solutions provider for water and wastewater clients in Ontario."

Most importantly, we continue to make public health and safety and the safety of our employees and our clients a priority for everyone that works with OCWA. Our commitment to health and safety includes taking personal responsibility for working safely, identifying and taking immediate action on workplace hazards and actively supporting individual and collective well-being. We are mindful of our responsibilities to help protect public health and the environment and consider the impact that our business decisions may have in the communities and ecological systems that sustain us.

We have made significant progress and are ready to implement a transformational change to become the preferred total solutions provider for water and wastewater clients in Ontario. We have tremendous respect and the trust of our municipal clients and a dedicated and committed workforce focused on providing sustainable water and wastewater systems for the people of Ontario. The early success evident in 2014 will increase during our upcoming year as we embark upon our new strategic vision.



Our Organization

OCWA was established in 1993 as an agency of the Province of Ontario with a mandate to provide water, wastewater and other related services to our clients in a manner that protects human health and the environment and encourages the conservation of water resources.

Since that time we have delivered a wide range of water and wastewater services to our municipal, institutional, commercial and First Nation clients across the province of Ontario. We operate more than 800 water and wastewater treatment facilities and associated collection and distribution systems on behalf of our more than 180 clients – more than any other operator in Canada.

OCWA has an unmatched ability to deliver excellent compliance and safety performance across diverse regions, technologies and facility sizes. Our people treat water and wastewater for populations as large as 1.3 million in the Region of Peel and as small as 2,400 in Moose Factory, where the facility is operated remotely from Kirkland Lake.

Over 90% of our employees are directly involved in developing, selling and delivering customer solutions. We deliver our services through a hub/satellite structure as part of our approach to ensuring cost-effective operations, which helps facilitate the efficient sharing of management, administration and operational systems to benefit our clients.

In addition to O&M, which is our core business, we offer our clients a broad array of related functions, including engineering, training and other technical and advisory services such as process optimization, energy management and asset management. Our goal is to assist our clients in managing their water and wastewater facilities and associated distribution and collection systems at every stage of the asset lifecycle and to help them ensure the sustainability of their water and wastewater systems. In everything we do, we are steadfastly committed to implementing innovative technologies, processes and solutions aimed at improving operational efficiency and reliability.

Given our role as a public Agency, the protection of public health and safety is our top priority. Our specially-equipped and highly-trained emergency response teams are available 24 hours a day to provide immediate response to water or wastewater emergencies throughout Ontario, providing an essential resource to the Province. With locations across Ontario, we are always nearby, ready and able to provide emergency resources should the need arise. We also support the Province of Ontario in safeguarding drinking water for the people of Ontario by providing training services for water operators on behalf of the Walkerton Clean Water Centre.

OCWA has an unmatched ability to deliver excellent compliance and safety performance across diverse regions, technologies and sizes of operations.

We strive to meet the objectives of the Water Opportunities Act, 2010 by working to promote, develop, test, demonstrate and commercialize clean water technologies. Across Canada and around the world, a combination of aging infrastructure and tight municipal budgets are forcing water utilities to find ways to do more with less. Fortunately, OCWA is well positioned to help make Ontario a world leader for water technology by connecting promising technologies with pilot sites.

We're also innovating in the area of information management. OCWA is working to develop and implement integrated information technology systems to automate collection, analysis and communication of water and wastewater facility information from internet-connected sites. Our goal is to ensure that our operational staff and our clients have ready access to up-to-date information on all of the facilities that we operate.

We believe that OCWA's success with these initiatives will help the Province to conserve and sustain our water resources for present and future generations, protect the health of Ontario residents and strengthen Ontario's position as a leading global exporter of water technology products and services.

Governance & Accountability

OCWA is governed by a Board of Directors ("the Board") whose members are appointed by the Lieutenant-Governor-in-Council on the recommendation of the Minister of the Environment and Climate Change ("the Minister").

The Board, which is accountable to the Provincial Legislature through the Minister, follows best practices in corporate governance and adheres to a Board Code of Conduct.

OCWA's governance structure, powers and responsibilities are set out in the Capital Investment Plan Act, 1993 (CIPA). A Memorandum of Understanding (MOU) with the Ministry of the Environment and Climate Change (MOECC) further clarifies the Agency's roles and duties. We manage our operations in a manner that is fair, ethical and transparent, providing the best overall value for our various stakeholders and ensuring accountability to our clients, the government and the citizens of Ontario.

The Board is responsible for setting the Agency's strategic direction, monitoring overall performance and ensuring appropriate systems and controls are in place in accordance with the Agency's governing documents.

To help fulfill its mandate and oversight responsibilities, the Board has established three standing committees, the Audit and Finance Committee (AFC), the Compliance and Operational Risk Management Committee (CORM) and the Governance and Nominating Committee (GNC). Quarterly Board and Committee meetings are complemented by at least one annual strategic planning session and the establishment of Board Task Forces to oversee the implementation of significant Agency initiatives such as OTEP and our current organizational review.

The need to manage risk is critical to our business, which is why we have established a comprehensive Enterprise Risk Management (ERM) Framework and Policy, aligned with the requirements set out in the Ontario Public Service (OPS) Agencies and Appointments Directive. We regularly identify, assess, manage, and monitor key risks, which are reviewed by our Executive Management Team (EMT) and reported to the Board. The Board and EMT perform an assessment of enterprise risks and review and approve the ERM Program and policy each year. Updates on OCWA's key risks and action plans to address the risks are also provided to CORM and the Board on a quarterly basis.

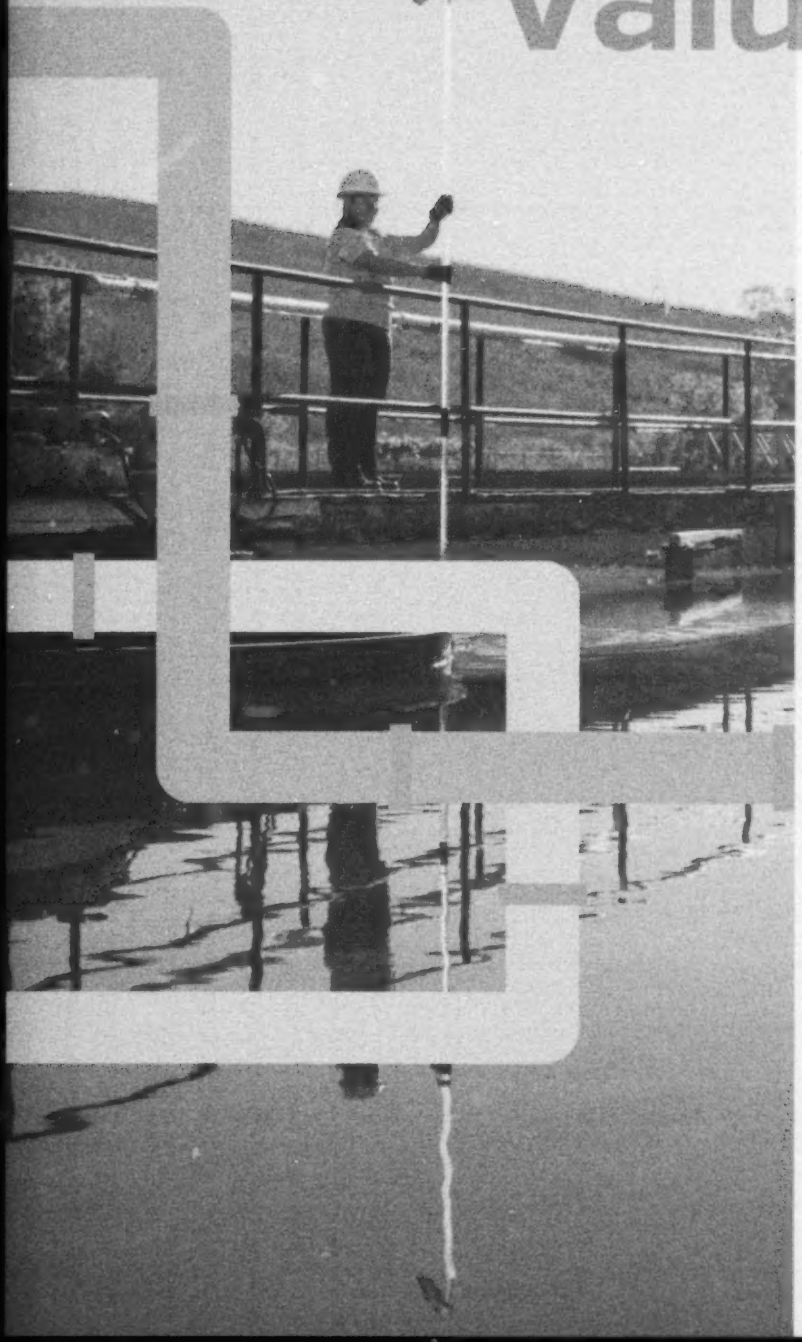
We manage our operations in a manner that is fair, ethical and transparent, providing the best overall value for our various stakeholders and ensuring accountability to our clients, the government and the citizens of Ontario.

Accountability

OCWA is committed to maintaining accountability to our clients, the province and the public. To achieve this we:

- Report on facility performance to our employees, clients and stakeholders;
- Publicly post the Agency's MOU with the MOECC;
- Generate a publicly available Annual Report that is approved by the Minister of the Environment and Climate Change and tabled in the Provincial Legislature;
- Produce a three-year Business Plan which is submitted annually to the Minister of the Environment and Climate Change for approval and posted publicly beginning in 2015;
- Have annual attest audits conducted by the Office of the Auditor General and periodic Value for Money audits;
- Comply with the Freedom of Information and Protection of Privacy Act; and
- Comply with Ontario Public Service policies and directives, including the Agencies and Appointments Directive, the Public Sector Expense Review Act, 2009, which requires public disclosure of expenses on the Agency's website, the Public Sector Compensation Restraint to Protect Public Services Act, 2010, the Perquisites Directive and the Procurement Directive.

Providing Value to the People of Ontario



At OCWA our primary objective is to provide value to the people of Ontario by delivering services that benefit our clients while supporting provincial priorities.

Delivering Total Solutions to Our Clients

The relationships we've developed with our clients go well beyond the delivery of O&M services. As a total solutions provider, we work with our clients to increase the efficiency of their water and wastewater systems and extend the life of their infrastructure. Conducting process and energy assessments allows OCWA to identify opportunities for efficiencies and shared savings initiatives and work with our clients to develop long-term capital plans, including financial plans and rate impacts. We also work with our clients to develop plans to meet their pressing needs, like replacing aging water and wastewater infrastructure assets and managing the infrastructure impact of severe weather events brought about by climate change.

By identifying process improvements and opportunities to reduce energy consumption we can help our clients to increase the capacity of their existing infrastructure, potentially deferring the need for costly expansions and find cost savings opportunities that enable them to better prepare for future upgrades and repairs.

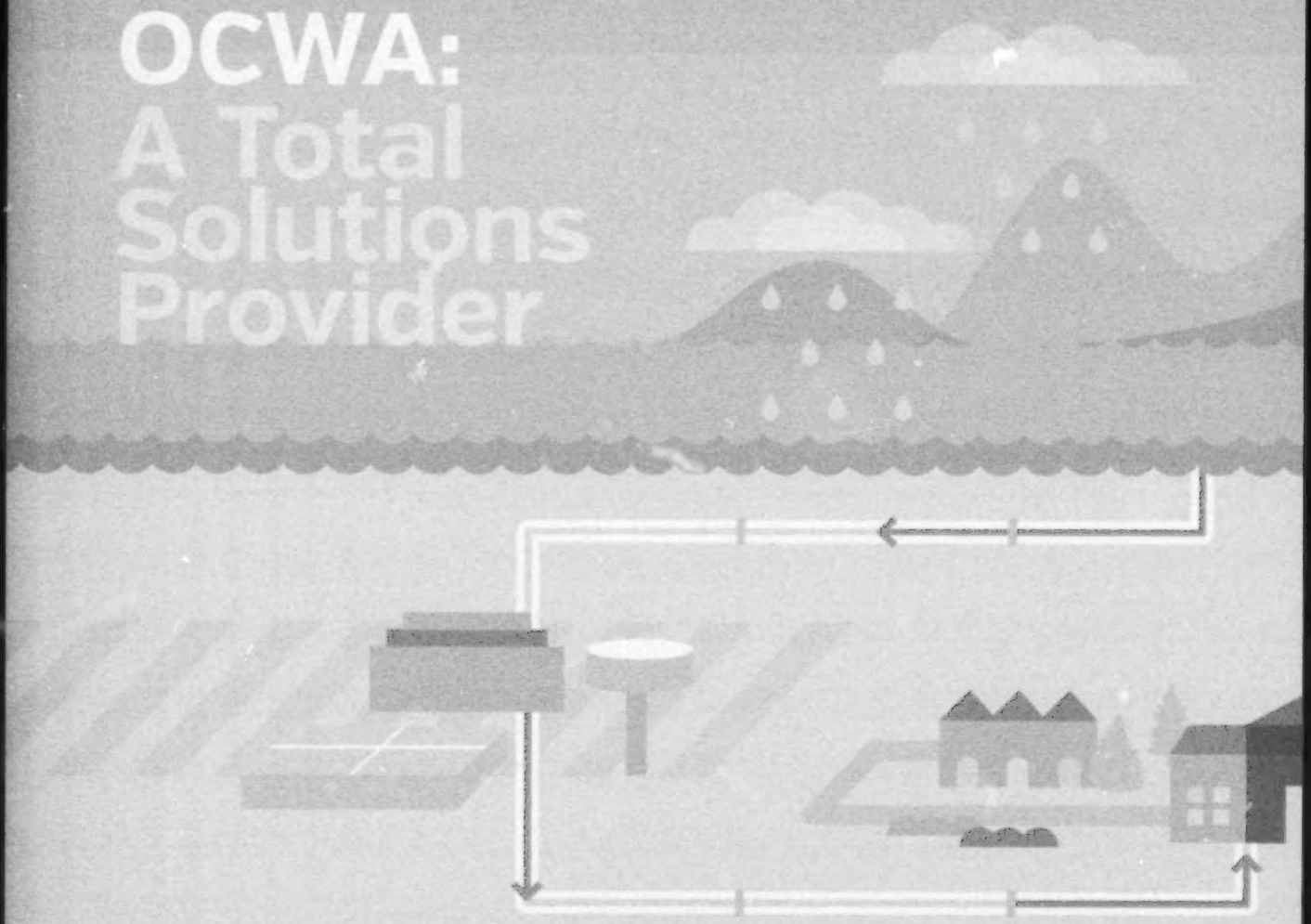
"The City of Stratford is very satisfied with the services that OCWA provides. In addition to guiding the City through a very successful energy savings program which resulted in savings of over 20% from the installation of a turbo blower at the Stratford Water Pollution Control Plant (WPCP), OCWA has completed an energy audit of and made recommendations for the WPCP and the City's water systems, which are now being implemented by the City, and has completed an optimization study on the WPCP which is guiding the City in making improvements to the plant."

George DeGroot, Manager of Engineering, Infrastructure and Development Services, City of Stratford

Supporting the City of Stratford

Throughout 2014, OCWA worked closely with the City of Stratford to implement changes that will improve the performance of the City's wastewater treatment plant and reduce energy consumption, resulting in long-term savings for the City. One of the innovative approaches that we have undertaken in Stratford is the installation of a 350Hp APG Neuros Turbo Blower as part of the saveONenergy program, in an effort to reduce the facility's total energy consumption. Since the turbo blower was installed, the City has seen a decrase of over 20% in energy consumption, resulting in annual savings of almost $70,000. This will enable the City to pay back the initial investment in the blowers in just two and a half years. The savings realized were so significant that Festival Hydro presented the City with a special recognition award for achieving the highest demand and energy consumption savings among all of their sites participating in the saveONenergy Process and Systems program. Other initiatives included the preparation of an Energy Audit Report outlining additional opportunities for energy savings, upgrading the City's Supervisory Control and Data Acquisition (SCADA) system to meet present and future needs and ensure sustainability and completing a Comprehensive Performance Evaluation (CPE) for the City that provided recommendations on opportunities for future capital improvements.

OCWA: A Total Solutions Provider



Asset Management

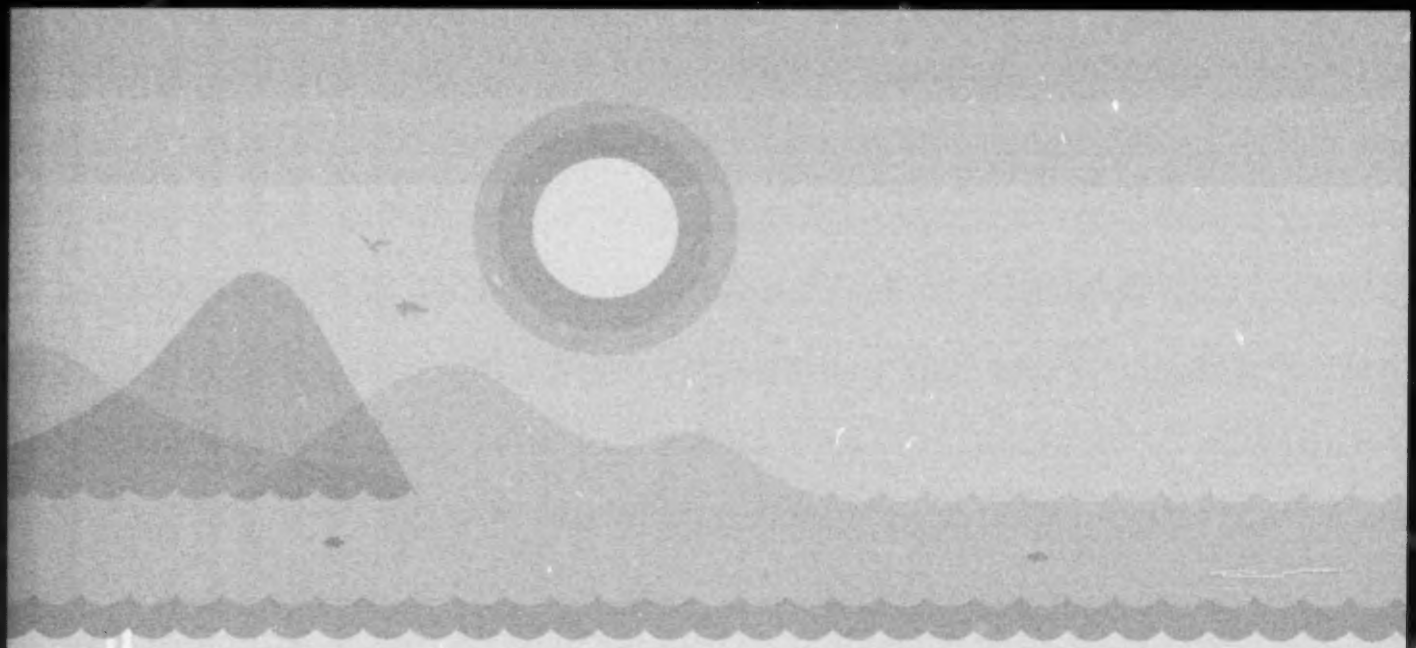
Our full range of technical and advisory services help our clients extend the life of their facility assets, leading to cost-savings, process efficiencies, and long-term sustainability.

Process Optimization

Our expert operations and engineering staff work with our clients to identify process improvements and energy savings opportunities that will help increase the capacity of their existing infrastructure, potentially delaying costly upgrades.

Protecting Water

Our commitment to the environment means that our operators protect water from source to tap – and back again. Using the most innovative tools and equipment, we not only ensure the water coming out of our clients' facilities is clean and safe for consumption, but that the water being returned to Ontario's lakes and rivers meets the highest environmental standards.



Managing Linear Assets

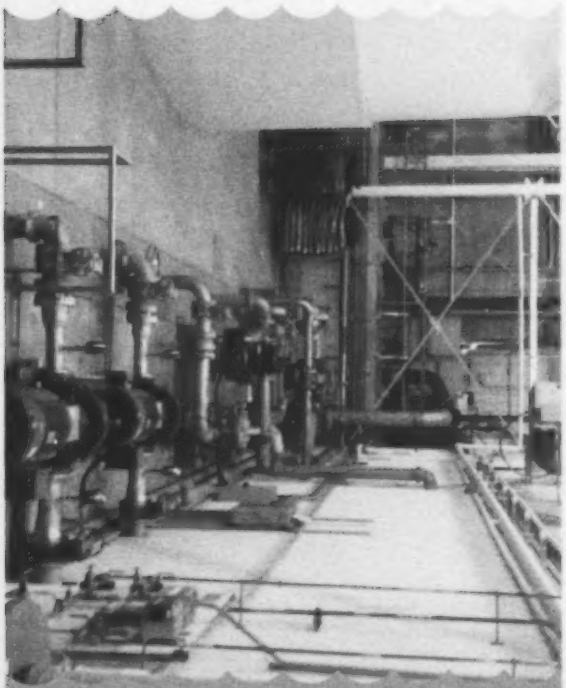
We assess and maintain our clients' infrastructure and equipment – both above and below ground. Our team of fully-equipped and certified staff can work with clients to customize a program to support their water distribution and wastewater collection needs.

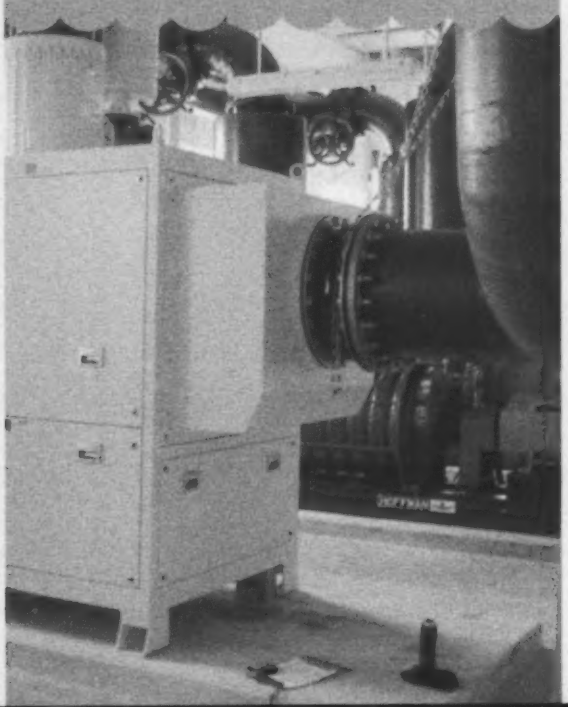
Capital Planning

Our expert operations and engineering staff help clients to develop and implement long-term capital plans, including financial plans and rate impacts, that will ensure the sustainability of their water and wastewater systems.

Resiliency Planning

We work with clients to ensure that their water and wastewater systems can withstand the effects of extreme weather events brought about by climate change, like flooding and severe winter storms.





Working in Partnership with the City of Clarence Rockland

For more than 25 years OCWA has worked in partnership with the City of Clarence Rockland to manage their water and wastewater systems. We're very pleased to have an opportunity to continue to develop this successful relationship moving forward, having recently renewed our agreement with the City for another ten years.

A key component of our partnership with Clarence Rockland is our commitment to working with the City to identify opportunities to better manage their systems and deliver long-term cost savings. One of the initiatives that we have recently undertaken is the completion of a capacity study and the development of a long-term Capital Plan for the City's wastewater treatment plant which outlines the major capital works that should be completed over the next 20 years and the estimated costs to complete the work. OCWA Operations and Engineering staff are currently working with the City to determine which of the recommendations from the study will best address current issues facing the facility and develop a plan for implementing the recommendations.

We're also helping the City to reduce the energy required to power the wastewater treatment plant. As part of the saveONenergy program run by the Ontario Power Authority (now part of the Independent Electricity System Operator), OCWA staff identified ways to save an estimated 350 MWh of energy and 40 kW of demand per year, which they anticipated would enable the City to avoid an expected 13% increase in hydro costs. Once the changes were implemented, the savings were even greater than anticipated, with the City's hydro costs decreasing by 29% when compared to the previous year, despite a 9.5% increase in wastewater flows. When a rebate of 37% of the project cost that the City received from the Ontario Power Authority is factored in, the project is expected to pay for itself in less than two years.

Fostering New Technology, Supporting Research and Conserving Energy through Partnerships

Another way that we provide value is by supporting the development of made in Ontario water and wastewater technologies. Working with organizations such as WaterTAP, Ontario Centres of Excellence, Southern Ontario Water Consortium, Fleming College Centre for Alternative Wastewater Treatment, University of Toronto Drinking Water Research Group and Ryerson University we connect Ontario technology companies with opportunities to test and commercialize their products. We offer solutions and support the development of new technologies that will benefit municipalities and First Nation communities across Ontario. By supporting Ontario technology companies we are also creating opportunities for economic development and the establishment of well paid skilled jobs in the Province.

We recently broadened our support of applied research in Ontario by extending our support for the Natural Sciences and Engineering Research Council of Canada (NSERC) Chairs of Research in Water at the Universities of Waterloo and Toronto, studying a number of secondary disinfectants in 2014. These findings will significantly advance the industry's understanding of the effectiveness of these disinfectants against pathogens and in minimizing the formation of disinfection by-products.

"Thanks to OCWA's support, we've made progress in evaluating both traditional and potential new disinfectants for controlling pathogens and disinfection by-products in the distribution system and in premise plumbing. We look forward to a continued partnership between OCWA, our municipal partners, and the University, to explore these important public health issues."

Ron Hofmann
Drinking Water Research Group,
University of Toronto

We're also working with partners to reduce the energy consumed in our client facilities. Under an agreement with the Ontario Power Authority (now part of the Independent Electricity System Operator (IESO)) OCWA conducted more than 100 energy reviews in 200 facilities across the province. These reviews have led to 21 detailed energy audits and thousands of recommendations on how our clients can save energy. By the end of 2014, we were on track to save a total of over 6,000MWh, enough energy to power more than 200 homes for an entire year[1].

By the end of 2014, we were on track to save a total of over 6,000MWh, enough energy to power more than 200 homes for an entire year.

"We are pleased to support OCWA in implementing its energy program. The focus on this important aspect of its customers' operations has achieved significant results, and we congratulate the Agency on its success."

Terry Young, Vice-President, Conservation and Corporate Relations, IESO

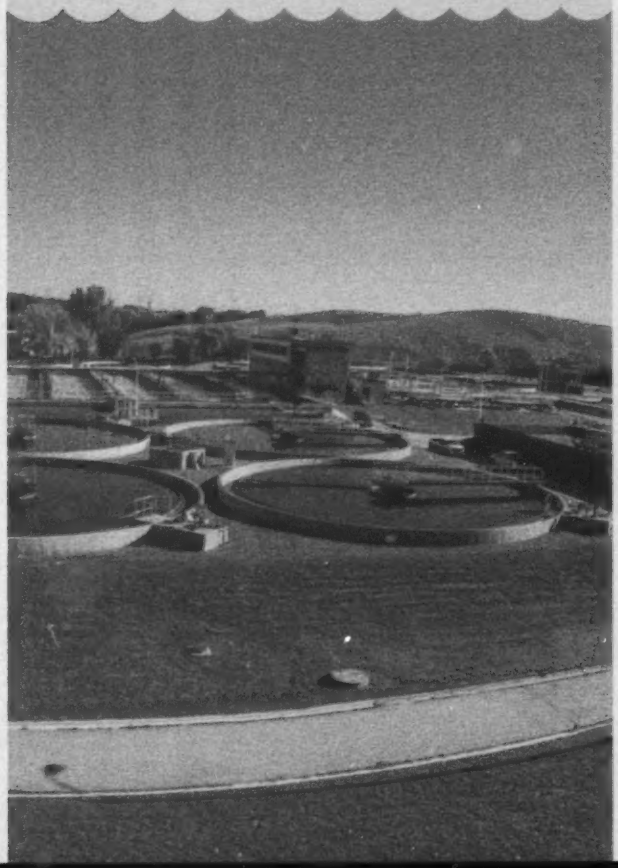
One of the companies that we worked with to test their products is Fibracast, an Ontario company that manufactures a hybrid-membrane product used in the water and wastewater treatment processes. In 2014 OCWA piloted Fibracast's hybrid-membrane at the Clarkson Wastewater Treatment Facility in the Region of Peel. Made in Hamilton, Ontario and featured prominently at WEFTEC, the Water Environment Federation's Annual Technical Exhibition and Conference, the biggest conference of its kind in North America, this membrane promises to deliver significant capital and operating cost advantages to the water and wastewater sector.

"It has been invaluable working with OCWA on the pilot of our new membrane. Thanks to OCWA we've been able to prove the exceptional performance of our hybrid-membrane over four seasons, as well as engage potential clients to see our membrane in action."

John Tomescu, Chief Executive Officer, Fibracast Limited

1 *According to the Statistics Canada report "Households and the Environment: Energy Use 2011", the average Canadian household consumed 105 gigajoules, or 29,166 kWh of power per year in 2011, the latest year for which information is available.*

OCWA continues to support the Region of Peel in the implementation and commissioning of the Energy Management System, Aquadapt Pumping Optimizer software from Derceto. This project was implemented to reduce GHGs and reduce water system energy consumption costs by 10-15%. Based on the most recent estimates of 10% energy savings and the 2012 energy cost of $24 million (based on 2012 system demand), the potential savings is $2.4M/year or $6,500/day. As the projected system water demand increases the potential savings will also increase.

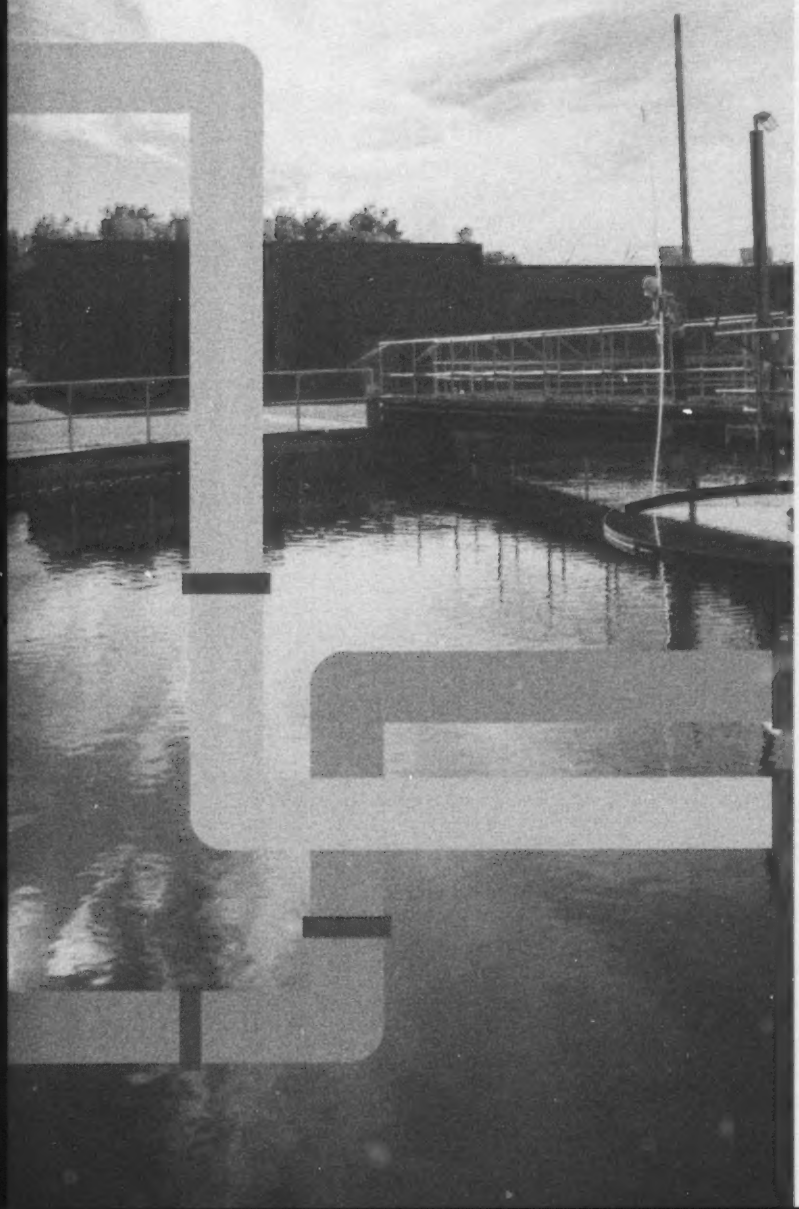


As the projected system water demand increases the potential savings will also increase.

"Through collaboration with OCWA, Peel has made significant progress in the implementation of the Energy Management System in the potable water pumping network. Managing energy use is a key element in maintaining the excellent value Peel residents currently enjoy for water and wastewater services. Energy optimization remains a key priority in the OCWA/Peel partnership."

Andrew Farr, Director,
Water Division, Region of Peel

Focusing on Efficiency



Changing the way we do things to become more efficient and provide better service to our customers continues to be a priority for the Agency.

In addition to enhancing our information technology systems, we're continually looking for better ways to manage our operations and working to ensure that we have the right structure in place to support our clients.

Using Technology to Work Smarter

Having the best O&M practices and the latest information technology and tools is essential to maintaining top operational performance. The tools and systems that we are implementing through the OCWA Tools Evolution Program (OTEP) provide us with the information required to analyze key operational and compliance data, make timely decisions and serve our clients efficiently and effectively.

They will increase the accuracy and timeliness of our internal and external reporting processes and will provide our operators with the opportunity to fully leverage their skills by using critical operational information to care for our clients' assets and ensure compliance.

This 'client-centric' approach is fundamental to helping our clients maintain sustainable communities of the future. In addition to upgrading our operational systems and tools, we've also updated our O&M processes and practices, which form the basis for configuring all of our integrated technology solutions, to reflect the knowledge of our staff and industry experts. As we move forward with OTEP, we will continue to enhance our operational practices and technology solutions to support the delivery of O&M services to our clients.

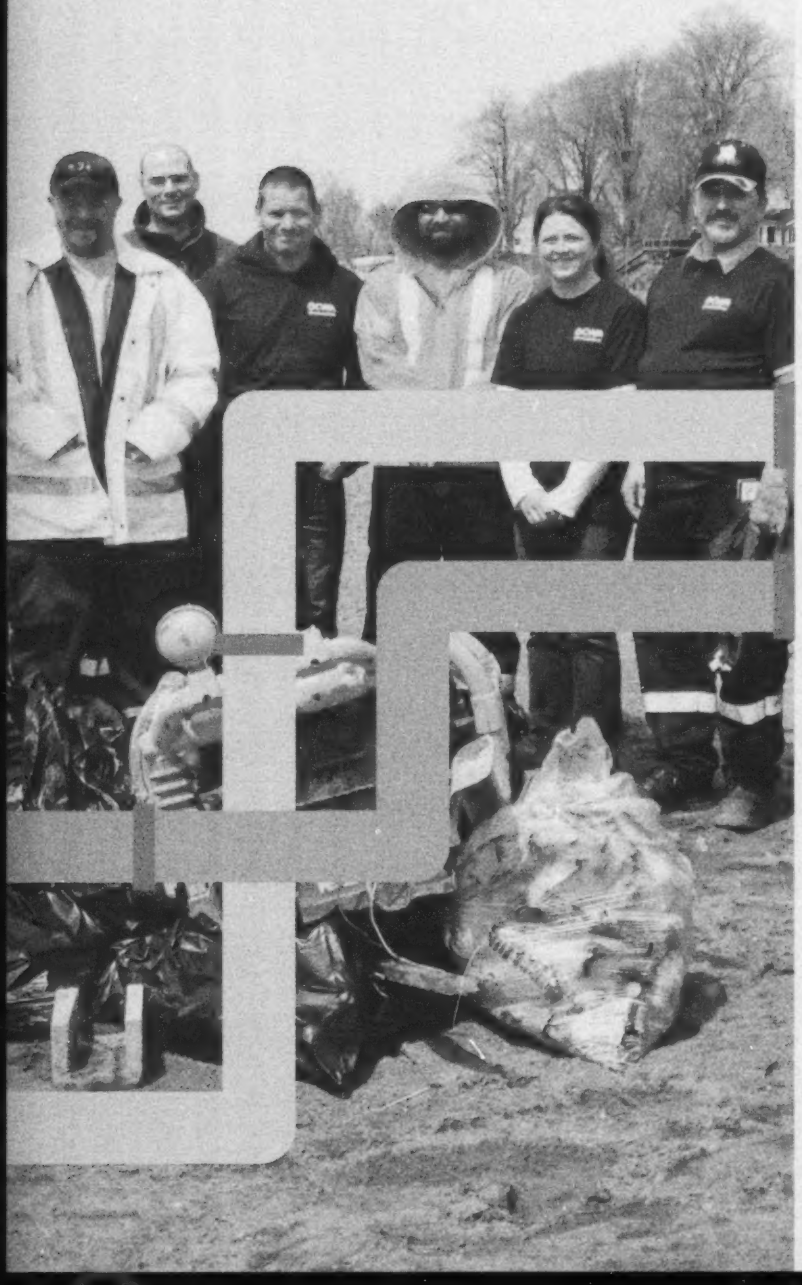
Enhancing Our Internal Processes

Our commitment to providing value to our customers goes beyond the O&M expertise and technical advisory services that we deliver to them every day. By continually looking for better ways to manage our operations, we can improve our productivity, reduce costs and deliver better service to our clients. We also recognize the importance of having the right people working in the right places to meet the needs of our clients. In 2014 we initiated an organizational review to make sure that we have the right structure in place to serve our clients and deliver on our growth strategy. The primary goals of the organizational review are to improve the efficiency of our front line operations and corporate services, close the gap between clients and services, develop and implement a consistent business model throughout the Agency and improve our overall cost structure. Implementation of organizational changes resulting from the review will begin shortly after the review is completed.

OCWA Tools Evolution Program

Changes that we have made through OTEP in 2014 include upgrading Outpost, our Supervisory Control and Data Acquisition (SCADA) system, which enables us to remotely manage our clients' water and wastewater systems, and rolling out a new Process Data Management (PDM) system, which is used to store and analyze key operations and compliance data and provide operators with easy access to key information, including real-time data and trends that can easily be shared with clients. We also piloted a new Work Management System (WMS), which will allow us to better manage our work and maintain and manage our clients' assets, and the use of handheld technology that will allow our operators to operate and maintain our clients' systems regardless of where they are physically located. Using the handhelds, our operators can pull data from a number of systems and access key information "in-the-field", rather than just in the control room, which will improve our ability to understand and manage our clients' systems and make fast, informed decisions.

Making a Difference



As a public Agency, the work that we do for our clients, our employees and the public goes beyond our financial and business objectives. By working to protect public health and the environment, promoting public education and investing in our staff and our communities we are helping to make Ontario a better place for the people that live here.

Investing in People

Our people are critical to our success, which is why we provide everyone that works at OCWA with opportunities for skills enhancement and career development. We also identify employees with the aptitude and desire to move into leadership roles in the Agency and provide training and other opportunities to enhance their leadership skills through our leadership development and succession management programs.

In addition to developing the people that work for us, we're working to attract students to pursue career opportunities in the water industry that they may not have previously considered. Our "Dive into a Career in Water" materials introduce students to exciting career opportunities in the water industry by profiling an array of OCWA employees involved in several areas of water and wastewater operations. We are also working to establish a pipeline of future talent to address the shortage of qualified operators that is already beginning to impact the water industry by promoting water industry jobs through educational organizations and at high school, college and university career fairs across Ontario.

Our Ongoing Commitment to Safety and the Environment

One of our greatest strengths is our strong safety culture. We work hard to provide an environment where our employees work collaboratively to promote and improve health and safety at work and we expect everyone that works for us to take personal responsibility for health and safety in the workplace. By continuously improving our health and safety programs and ensuring that our managers and supervisors equip and train employees to work safely and identify and take immediate action on workplace hazards, we can achieve our goal of a workplace free of reportable incidents.

We are also committed to delivering safe, reliable and cost-effective clean water services that protect public health and the environment and have developed a comprehensive quality and environmental management system that includes measuring, assessing and regularly reporting on the performance of the water and wastewater facilities that we operate. In addition to understanding and complying with all applicable legislation and regulations, we utilize a risk-based approach to quality management that accounts for the complexity and specific challenges of providing O&M services. We work with our clients to prevent pollution and contribute to a more sustainable future by promoting opportunities for operational efficiency and the use of improved technologies.

Educating the Public

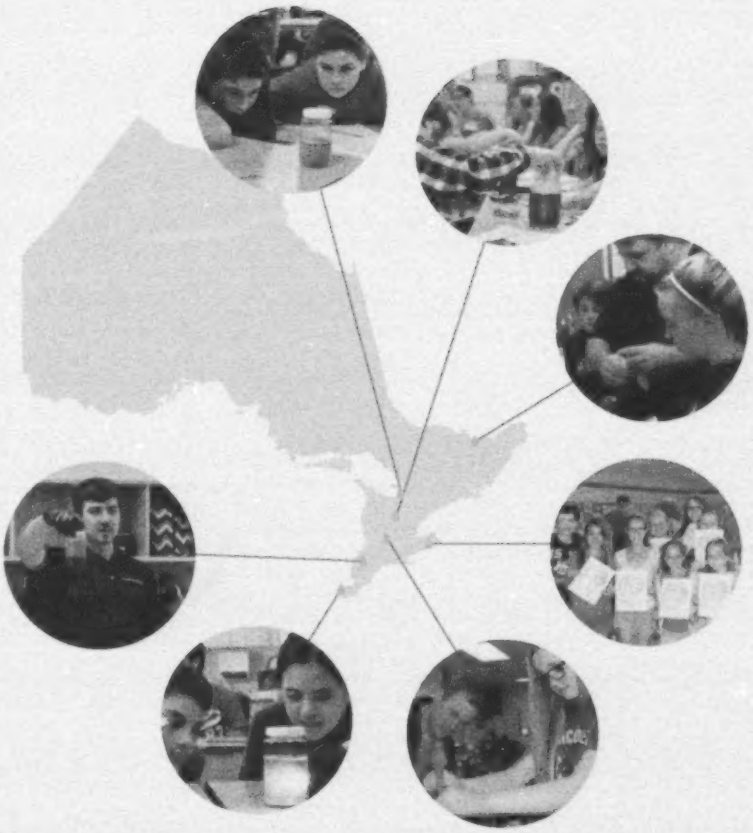
Raising awareness about environmental issues can bring about positive changes in behaviour that benefit the communities where we live and operate. In 2014 we initiated two exciting new education and awareness initiatives. Our OneWater™ educational program and "I Don't Flush" public awareness campaign both aim to educate the public about the importance of water and how to protect it.

OneWater™

OneWater™ teaches the value of water to students in grade eight by providing activity-based lessons on water and the water cycle. The program brings OCWA water operators and teachers together to educate students about water treatment in their communities. By incorporating hands-on demonstrations that illustrate the treatment process, OneWater™ provides a unique opportunity for students to become good stewards of their environment and help protect our water systems both now and in the future. OneWater™ was piloted for more than 300 students in nine client communities in the 2014/15 school year. Everyone that has been involved with the program to date has found the experience to be positive and meaningful. OCWA staff have enjoyed the opportunity to share their water knowledge in a classroom setting and teachers have been extremely receptive to the hands-on activities that help improve water literacy for students and the fact that the program meets provincial curriculum requirements.

"Students enjoyed the informative presentation! The visit from the OCWA operator was well organised with both the teacher and operator having easy-to-follow lesson plans. Students were made aware of the need to protect local water, and that they can do things at home to accomplish this. The fact that the program focused on local issues made the topic important to students."

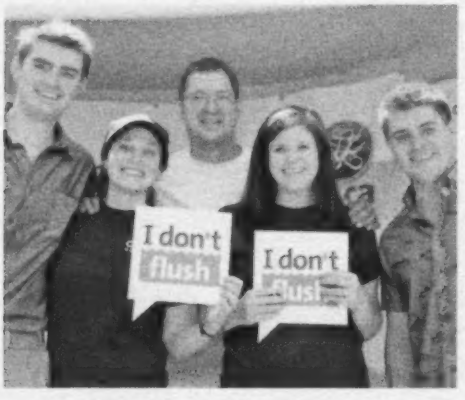
Marc Tremblay, Teacher, St. Philip Catholic School, Petrolia Ontario



The "I Don't Flush" PSA has been shown over 2000 times on 20 television channels and six radio stations in the SHAW and CHCH network since the start of the campaign. The campaign has also received considerable media attention, reaching a potential audience of more than 26 million people through social media, web, print, television and radio coverage.

"I Don't Flush" campaign

The "I Don't Flush" campaign encourages the public to properly dispose of their unused and unwanted medications by returning them to participating pharmacies instead of flushing them down the toilet/sink or throwing them in the garbage. The campaign, which was launched in partnership with the Clean Water Foundation and is supported by the Region of Peel, the Regional Municipality of York and the Health Product Stewardship Association, includes a humorous public service announcement (PSA) featuring notable Ontarians taking the "I Don't Flush" pledge and points viewers to the "I Don't Flush" website (www.idontflush.ca) where they can find a pharmacy location along with information on other non-flushables such as fats/oils/grease and household hazardous waste.

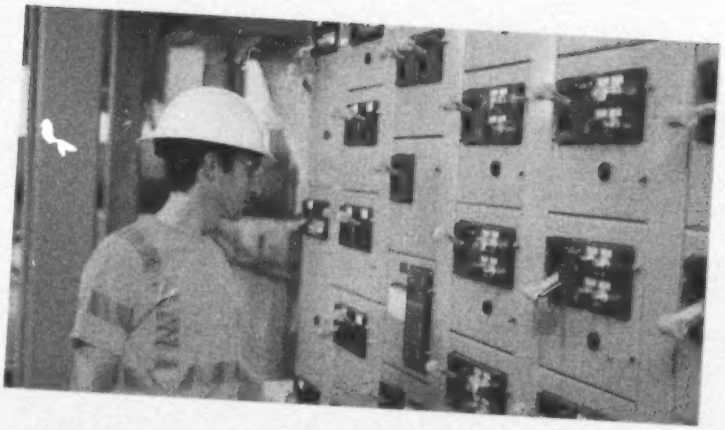


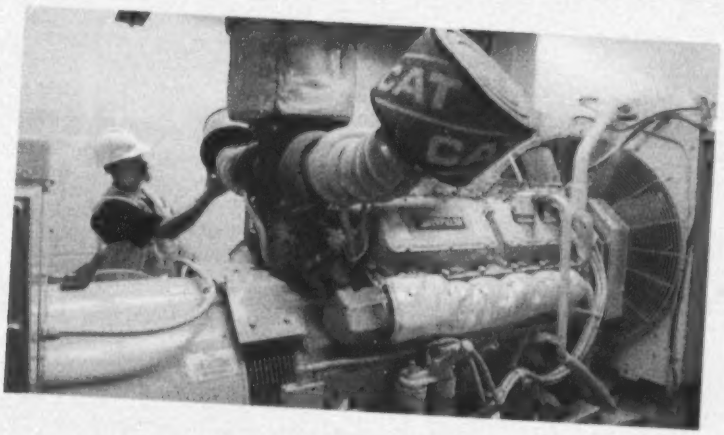
Maintaining Compliant Operations

Water system inspections are conducted annually by the MOECC's Drinking Water Management Division. Inspection results are tracked as one of OCWA's indicators of operational performance. OCWA achieved an overall average water system inspection rating of 98% in 2014, with 65.1% of OCWA water system inspections receiving a rating of 100%.

In 2014, 99.8% of influent wastewater flows at OCWA facilities received full treatment. In 99.9% of the instances where wastewater was discharged into a receiving water body without having received full treatment, the reason for the bypass was hydraulic loading due to weather conditions.

Meeting wastewater effluent limits detailed in Certificates of Approval is tracked as one of OCWA's indicators of operational performance for wastewater facilities. In 2014, OCWA achieved an overall average of 99.8% of Agency wastewater facilities having met limits for key effluent parameters (Biochemical Oxygen Demand, *e.coli*, Total Phosphorous, and Total Suspended Solids). We also achieved an overall treatment effectiveness average of 94.0% for the key wastewater effluent parameters.





2014 Operational Highlights

- On June 19, the Lakeview Water Treatment Plant (WTP) in Peel sent the first drop of treated water from its new 400 million litres per day (MLD) plant to the distribution system, bringing the total rated capacity of the Lakeview WTP site to 1150 MLD. The new facility is equipped with ozonation, biological active carbon contactors, ultraviolet reactors, and membrane ultra filtration.

- In April, OCWA hosted an international delegation from companies and research institutes from Netherlands, Japan, China, and the United States for a tour of the Lakeview WTP. This tour, in support of the Ministry of Economic Development, Trade and Employment, also included representatives from the Ministry of the Environment and Climate Change and the Department of Foreign Affairs, Trade and Development Canada.

- OCWA undertook a Filter Backwash (BW) Study for the Lambton Area Water Supply System (LAWSS), the results of which were very successful. To date, OCWA has been able to reduce the annual volume of BW water required by 415,378 m3, resulting in a reduction in process water needing treatment, reduced de-chlorination chemical demand and hydro use reductions for BW motor run-time (298 Kw) and sub-process pumping run-time (7.5Kw). OCWA will continue to seek additional Filter Backwash savings in 2015.

- OCWA's Process and Optimization Team conducted a Comprehensive Performance Evaluation (CPE) for the wastewater treatment facility at the Stratford Wastewater Treatment Plant (WWTP). The CPE is one component of a Composite Correction Program (CCP), which evaluates and addresses a number of factors impacting plant performance. The CPE evaluates the design, administration, operation and maintenance of a wastewater treatment plant to determine whether the plant is capable. Reports from the CPE can be used by the municipality to support their long-term capital plans for sustainability.

- OCWA and the Town of Kirkland Lake received the Ontario Public Works Association's 2014 Project of the Year award in the $10 million to $50 million Disaster/Emergency Construction/Repair category for the project management of the construction of a new WWTP for the Town. The project was funded collectively by all three levels of government and resulted in a new WWTP built adjacent to the existing plant, which has been decommissioned and converted to a pumping station with a storm-surge tank to provide additional storm water capacity during peak flows.

- OCWA held two Hands-On Wastewater Training Ontario (HOWW TO) operator training sessions in 2014. HOWW TO sessions are hands-on training sessions that provide participants practical experience with wastewater facility equipment that they would not receive in traditional classroom training sessions. The inaugural session, held in June at Wasaga Beach, was so well received that Halton Region hired OCWA to deliver a session for 40 of their operations staff in October.

Overview of 2014 Results

Strategy	Goal	Results
Strategy 1	**Growth through New Business Streams and Strategic Partnerships**	
New Markets and Service Offerings	Growth through expansion of our service offerings and penetration of new markets	• Revenue ahead of plan by $6.9M • Developed a new strategic plan for growth in Ontario focused on providing total solutions for clients, including process optimization, energy management and asset management services that will enable clients to better manage their water and wastewater assets
Strategic Partnerships	Expand our strategic partnership program and formalize our approach to research and innovation	• Met regularly with WaterTAP, Ontario Centres of Excellence, Southern Ontario Water Consortium and the Fleming College Centre for Alternative Wastewater Treatment to discuss how to work with solution providers to bring new technologies to market • Partnered with the Ontario Power Authority to conduct more than 100 energy reviews in 200 water and wastewater facilities across the province, resulting in recommendations for 6,000MWh in energy savings
Participation in Public Private Partnerships (P3s)	Successful participation as a member of a P3 proposal team	• Joined two proposal teams in 2014 for P3 opportunities in Ontario. Both proposals were still underway at the end of 2014
Strategy 2	**Increase Productivity, Efficiency and Effectiveness**	

Intelligent OCWA	Continue OCWA Tools Evolution Program (OTEP) implementation	• OTEP implementation continuing on schedule
		  ◆ Supervisory Control and Data Acquisition (SCADA) system upgrade and Process Data Management (PDM) system rollout completed
		  ◆ Work Management System (WMS) and handheld technology pilots completed

Strategic Procurement	Achieve cost savings through centralized procurement of regularly purchased goods and services and incorporate sustainability criteria into the Agency's procurement process	• Increased the total number of centralized vendor agreements to 136 • Green Tender process initiated to reduce the total amount of paper required to manage Agency procurement by omitting the use of binders and colour copies and requiring only one printed signed copy and an electronic copy of each vendor response to posted Request for Proposal (RFP)

Strategy	Goal	Results
Strategy 2 *(continued)*		
Enterprise Risk Management	Incorporate sound risk management practices into all Agency business activities	• Risk Assessment workshops held with Executive Management Team and Agency Senior Managers
Consulting Services and Operational Support	Optimize utilization of staff providing consulting and support services with a focus on providing value-added services that support our long-term growth objectives	• Full review of consulting and operational support service structure included as part of the Agency's organizational review
Strategy 3	**Client, Employee and Community Engagement**	
Brand, Marketing and Communications	Increase recognition of our brand on a global level and improve our visibility with key players and potential strategic partners	• Marketing and communications strategy refocused to be in alignment with strategic plan for growth in Ontario • Enhanced industry outreach activities including attending 48 industry conferences, presenting papers at 13 and publishing 5 articles in industry publications
Employee Career Development and Talent Attraction	Enhance OCWA's succession planning to increase the number of licensed water quality professionals and attract young people to careers in the water industry	• Promoted careers in the water industry at 10 career fairs and other student events across province • Implemented actions to ensure adequate levels of staff with level 3 and 4 certification, including requiring new hires in Operations with Operator-in-Training (OIT) licenses to upgrade their licenses within a specified time frame

Education and Public Awareness	Communicate the value of water to the public through education and public awareness campaigns	• OneWater™ educational program delivered to more than 300 students in nine client communities in the 2014/15 school year
		• Launched the "I Don't Flush" public education campaign
		  ◦ Public service announcement broadcast more than 2000 times on 20 television channels and six radio stations
		  ◦ Potential campaign reach of more than 26 million people through social media, web, print, television and radio coverage

Board of Directors [as of December 31, 2014]

Michael R. Garrett, Chair

Term: June 25, 2008 to June 24, 2016

Michael R. Garrett has extensive experience as a senior executive in the public sector. Mr. Garrett has served in a variety of capacities including: Chief Administrative Officer for the Regional Municipality of York, City Manager for the City of Toronto, Chief Administrative Officer for the Regional Municipality of Peel, Assistant Deputy Minister of the Ontario Ministry of Natural Resources, Program Director for the South Nation Basin and Director of Water Resources with the Metropolitan Toronto and Region Conservation Authority.

John Bergsma, Vice Chair

Term: August 1, 2007 to September 24, 2016

In addition to serving as the Vice Chair on OCWA's Board of Directors, John Bergsma is currently Chairman of the Board of Pioneering Technology Corp. He also sits on the Boards of St. Catharines Hydro Inc. (Vice Chair – Generation) and Horizon Utilities Corp. He served as President of Lennox Canada Inc., President and CEO of Union Gas Limited, President of Massey Ferguson Research Ltd., and Columbus McKinnon Limited. Mr. Bergsma also served on the Boards of Directors of CFM Corp., various natural gas utilities, pipeline companies and industry associations, including the Executive Committee of the Board of the International Gas Union. Mr. Bergsma is the past Chair of the Board of the Niagara Health System Foundation and served over 20 years on the Board of Governors of the University of Waterloo, including a term as Board Chair. He also served as Commissioner of Corporate Services for Niagara Region, on the Boards of the Stratford Festival of Canada, Ontario Great Lakes Renewal Foundation, the Canadian Urban Institute, and various United Ways across Ontario.

Debbie Baxter

Term: April 17, 2013 to April 16, 2016

As a Vice President at Deloitte, Ms. Baxter works with clients on strategies for Corporate Real Estate, Smart Connected Buildings and the Future of Work. Trained by former United States Vice President and Nobel laureate Al Gore, Ms. Baxter is passionate about raising public awareness of climate change. Coming from an operations and technology background, Ms. Baxter is also a Chartered Professional Accountant, Certified Management Accountant (CPA, CMA) and holds a Corporate Directors ICD.D designation. Ms. Baxter is a recipient of the 2013 Clean50 award and the 2011 Green Living award for Excellence in Corporate Responsibility.

Melanie Debassige

Term: October 23, 2013 to October 22, 2016

Melanie Debassige, principle owner of MSD Management has over 15 years of experience in Aboriginal Economic Development. She is currently employed with Milman Industries as the Manager of Special Projects and Partnership Development. She obtained a Diploma in Native Management and Economic Development from Trent University and a Bachelor of Arts from the University of Western Ontario. She also has a certificate in Economic Development from the University of Waterloo and is a certified Professional Aboriginal Economic Developer with the Council for the Advancement of Native Development Officers. Ms. Debassige held the elected position of Councillor with the M'Chigeeng First Nation Chief and Council for eight years and was appointed as a police commissioner with the United Chiefs and Councils of Manitoulin Police Services for seven years. She also holds a position as Director on the Mother Earth Renewable Energy Board that oversees the for-profit wind turbine corporation that is solely owned by M'Chigeeng First Nation. Ms. Debassige has also served on the Great Spirit Circle Trail Board of Directors, a not-for-profit destination marketing organization. Ms. Debassige completed the Director's Education Program at the Rotman School of Management and is now a certified corporate director. She also has a Master's in Business Administration.

Susan Fletcher

Term:
November 2, 2009
to December 4, 2015

Susan Fletcher, a Chartered Professional Accountant, Certified Management Accountant (CPA, CMA) and consultant, has provided consulting services in a variety of business sectors over the past 20 years, including financial services, health care, non-profit organizations and municipal government. Ms. Fletcher has previously held senior financial management positions in the automotive and research and development sectors. She is a member of the Chartered Professional Accountants of Ontario and holds a Bachelor of Commerce degree from Queen's University.

Elizabeth A. McLaren

Term:
November 3, 2010
to November 2, 2016

After a career in the Ontario Public Service that spanned nearly four decades, Elizabeth McLaren retired in 2008. Over the years she held several different senior-level positions, including Assistant Deputy Minister for the Office of the Greater Toronto Area. Immediately preceding her retirement, Ms. McLaren was the Assistant Deputy Minister of the Municipal Services Division in the Ministry of Municipal Affairs and Housing. Since her retirement, she has been a Senior Associate with Hill & Knowlton Canada and GCI Group.

Brian Mergelas

Term:
December 5, 2012
to December 4, 2016

Dr. Brian Mergelas offers a proven entrepreneurial record and wealth of expertise in strategic development, operational leadership and financial and relationship management. He has successfully commercialized several new technologies in the global water sector. Dr. Mergelas is presently CEO of Sunwell Technologies and served as the CEO of the Water Technology Acceleration project from 2012-2015.

Gino Nicolini

Term:
August 12, 2008
to August 11, 2016

Gino L. Nicolini is retired after a 40 year career in the private sector in Ontario. Mr. Nicolini has served in a variety of capacities, commencing in Toronto as a Project Engineer for Kilmer Van Nostrand Construction Limited and subsequently as owner /President of Val Nicol Construction Limited in Mississauga and since 1980, as owner and President of Nicolini Construction and Engineering Limited in Ottawa. He has served as a member of the landfill Waste Disposal Regulatory Policy Group of the Public Advisory Committee for the City of Ottawa. He has served as President of the Ottawa-Gloucester Rotary Club and currently serves as a member of the Committee of Adjustment for the City of Ottawa. He also serves on the Board of Directors of Multiview, which is a professional services firm that specializes in subsurface Utility Engineering, near surface Geophysics, Infrastructure Inspection and Utility location and mapping in Toronto and Ottawa. Mr. Nicolini earned his Bachelor of Applied Science Degree in Civil Engineering from the University of Waterloo in 1973 and has been a member of the Association of Professional Engineers of Ontario since 1975.

Board of Directors [as of December 31, 2014]

Debra Sikora

Term:
January 15, 2014
to January 14, 2017

Debra Sikora has been with the Ontario Public Service for over 25 years and 2 years ago joined the Ministry of Agriculture and Food and the Ministry of Rural Affairs. In her current role, she is responsible for overseeing the Food Safety and Environment Division to support the vision of Safe Food, Healthy Animals, and a Healthy Environment. Prior to joining OMAFRA Ms. Sikora was the Assistant Deputy Minister and Chief Administrative Officer with the Ministry of the Environment. Ms. Sikora earned a Bachelor of Applied Science in Geological Engineering from the University of Toronto.

Michael Thorne

Term:
June 19, 2013
to June 18, 2016

Michael Thorne is a Municipal Consultant with over 40 years of experience in the planning, operation and construction of water, wastewater and solid waste projects. He spent 15 years with the Ministry of the Environment managing the South Peel Water and Sewage System prior to joining the Municipality of Metropolitan Toronto, where he held a variety of senior positions including the Commissioner of Works with the Metro Works Department. Since then he has provided a variety of consulting services in delivering capital water and wastewater programs for the Regions of Halton, Durham, and Peel and the City of Hamilton. He is currently working with the Region of Halton.

Total director compensation for 2014 was $37,210.

Board Committees

Audit and Finance Committee

Debbie Baxter (Chair)
Susan Fletcher
Brian Mergelas
Gino Nicolini

Compliance and Operational Risk Management Committee

John Bergsma (Chair)
Melanie Debassige
Elizabeth McLaren
Gino Nicolini
Michael Thorne

Governance and Nominating Committee

Deb Sikora (Chair)
Debbie Baxter
John Bergsma
Elizabeth McLaren

Officers of the Agency

Rob Andrews, President and Chief Executive Officer

(January 2014 to Present)

Rob Andrews was appointed President and CEO of the Ontario Clean Water Agency on January 6, 2014. Since joining OCWA, Mr. Andrews and the Agency's Senior Management Team have been working to expand the scope of OCWA's business in the province of Ontario and solidify the Agency's reputation as Canada's premier provider of total water and wastewater solutions. Prior to joining OCWA, Mr. Andrews was the Chief Executive, Global Water at AECOM, the world's largest water engineering business with annual revenues exceeding $1B USD. Rob's other previous industry experience includes Earth Tech's Executive Vice President, Global Water Projects and Products Division. Mr. Andrews's project experience includes engineering and project management of many of the largest water and wastewater treatment systems in the world, including Toronto, Peel Region, Boston, New York, Chicago, Washington, San Francisco, Hong Kong, Sydney and London.

Dan Atkinson, Vice President, Finance and Corporate Services

Dan Atkinson has been with the Ontario Public Service for over 30 years and joined OCWA at its inception in 1993. One of the Agency's original officers, Mr. Atkinson has served as Corporate Controller and Vice President of Operations from March 2000 to December 2010. He is a Chartered Professional Accountant, Certified Management Accountant, Certified General Accountant (CPA, CMA, CGA) and holds Bachelor of Commerce and Master of Business Administration degrees. He is also a Chartered Director (C. Dir.) and sits on the Boards of: Moss Park Arena Board of Management; New Tecumseth Improvement Society (Vice Chair); and the Ontario Lacrosse Hall of Fame and Museum.

Robin Kind, General Counsel and Corporate Secretary

Robin Kind has been a member of the Agency's legal group since November 1994. Prior to joining OCWA, Ms. Kind spent several years in private practice in Toronto in the areas of corporate, commercial and environmental law. Ms. Kind held the position of Assistant General Counsel at OCWA from July 2000 until she was appointed General Counsel in May 2003.

Bev Mollard, Vice President, Operations

Bev Mollard joined OCWA at its inception in 1993 and has been with the Ontario Public Service for more than 30 years. She has held many challenging positions with the Ministry of the Environment and OCWA as Plant Operator, Chief of Operations, Plant Assistant Superintendent, Assistant Operations Manager, Research and Compliance Specialist and Regional Manager prior to assuming her current role as Vice President, Operations in May 2012. Ms. Mollard holds her Canadian Registered Safety Professional Designation and is actively involved with Water Environment Association of Ontario as a member of the Operations Challenge Committee. Ms. Mollard is currently one of the Ontario Directors for the Canadian Water and Wastewater Association (CWWA).

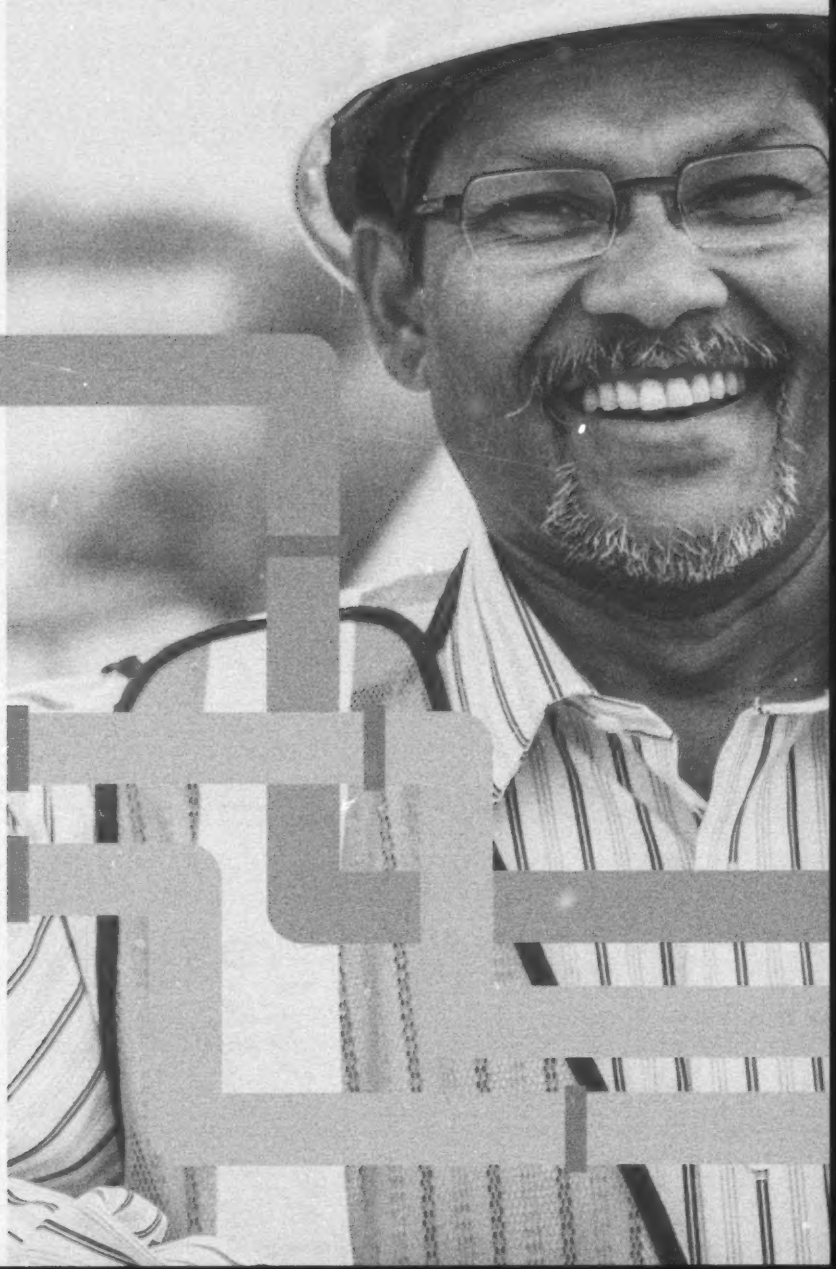
Mohammad Qureshi, Vice President, Information and Information Technology

Mohammad Qureshi joined the Information Technology department at OCWA in 2000. He has held several roles within the Agency, including Manager of Business Solutions and of Infrastructure Services, and most recently as Director, Business Transformation prior to assuming his current role of Vice President, Information and Information Technology in July 2012. Mr. Qureshi holds a Bachelor of Science in Computer Science from the University of Toronto and is ITIL (Information Technology Infrastructure Library) certified. He is also a member of both the CIO Association of Canada and the Municipal Information Systems Association (MISA).

Sandra Witlarge, Controller, Finance

Sandra Witlarge joined OCWA in September 2000 as Manager of Budgets and subsequently became Controller in May 2002. Prior to joining OCWA, she held various financial positions with a large manufacturing company. Ms. Witlarge is a Chartered Professional Accountant, Certified Management Accountant (CPA, CMA), a Certified Fraud Examiner and holds a Bachelor of Administrative Studies degree.

Financial Statements



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38 Statement of Cash Flows
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Management Analysis of Financial Results

Despite the challenging global economic environment, the Ontario economy continued its steady but moderate growth in 2014. While low inflation has enabled the Agency to benefit from moderate cost increases for goods and services, it has contributed to low revenue increases for fixed price contracts.

Client retention was strong in 2014. As OCWA continues to demonstrate value to clients, the Agency was able to retain the majority of its O&M contracts, contributing to Total Operating Revenue growth of 3.9% compared to 2013. Management of vacancies and operating expenses contributed substantial cost savings as shown by an increase in Total Operating Expenses of only 3.5%. As a result, the Agency realized a Net Income of $1.4M, an improvement of 66.8% compared to 2013.

Balance Sheet

The positive Net Income has resulted in Net Assets increasing to $189M. Total Assets at December 31, 2014 were $221.6M. OCWA generated $5.4M in cash which contributed to the Agency's strong cash and investments position of $66.4M, an improvement of 5.5% compared to 2013. As in previous years, the Agency has no debt.

Revenue

Utility operations revenue increased by 3.2% compared to 2013. The annual consumer price index (CPI) contained in our operating contracts, contractual price changes and new operation and maintenance contracts were able to offset the revenue losses from terminated contracts. Revenue from fees generated an increase of 56.2% compared to 2013.

Management Analysis of Financial Results

Expenses

The Agency minimizes exposure to volatility of commodity costs and ensures reliable supplies by establishing multi-year contracts with suppliers through the tender of bulk purchases for process chemicals and the use of the Request for Proposal (RFP) process to establish multi-year contracts for biosolids management and laboratory testing. Reduction of exposure to cost fluctuations is also accomplished through the negotiation of client contracts to allow for the flow-through of chemical and insurance costs, whereby the client assumes the risk for these costs. Despite recent global upsets, OCWA's insurance prices remain competitive due to the bulk purchase of this service. Compared to 2013, insurance costs increased by 4.5% in 2014.

Salaries and Benefits showed a marginal decrease of 1% as vacancies were managed throughout 2014. Repair and Maintenance and restructuring costs contributed to a year over year increase in Other Operating Expenses. In 2012 the Agency's Board of Directors approved the OCWA Tools Evolution Program (OTEP) to transform and modernize the information technology systems. While amortization costs related to the OTEP project increased by 110% compared to 2013, a change from purchasing to leasing vehicles resulted in a reduction in the amortization of vehicles, which led to an overall reduction in amortization costs of 7.3% compared to 2013.

Interest from Investments and Loans Receivable

OCWA's financing income is comprised of short term investments, including a bond portfolio, interest on cash balances and interest on the inherited loan portfolio. Continued global economic and geopolitical uncertainties have caused the Bank of Canada to maintain interest rates at historically low levels. The reinvestment of short term investments at lower bank rates as they came due resulted in a decrease in investment income. In addition, the inherited loan portfolio continued to decline as loans matured and were retired, contributing to the decrease in investment income of 2.2% when compared to the previous year.

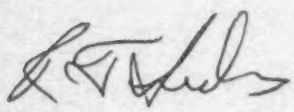
Management's Responsibility for Financial Information

OCWA's management and Board of Directors are responsible for the financial statements and all other information presented in this annual report. The financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

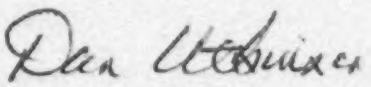
OCWA is dedicated to the highest standards of integrity in its business. To safeguard assets, the Agency has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed, and continues to maintain, financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices, and reports are issued to the Executive Management Team.

The Board of Directors ensures that management fulfills its responsibilities for financial and internal control. The Board of Directors and the Audit and Finance Committee of the Board meet quarterly to oversee the financial activities of the Agency and at least once a year to review the financial statements and the external auditor's report and recommend them to the Minister of the Environment and Climate Change for approval.

The Auditor General has examined the financial statements. The Auditor General's responsibility is to express an opinion on whether the financial statements are presented fairly in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.



Rob Andrews
President and Chief Executive Officer



Dan Atkinson
Vice President,
Finance and Corporate Services

Toronto, Ontario
March 26, 2015

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Clean Water Agency,
the Minister of the Environment and Climate Change,
and the Minister of Finance

I have audited the accompanying financial statements of the Ontario Clean Water Agency, which comprise the statement of financial position as at December 31, 2014, and the statements of operations and change in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Clean Water Agency as at December 31, 2014 and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance Canadian public sector accounting standards.

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www.auditor.on.ca

Toronto, Ontario
March 26, 2015

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Statement of Financial Position

As at December 31, 2014

(in thousands of dollars)

Assets	December 31, 2014	December 31, 2013
Current assets:		
Cash and short-term investments (note 3a)	44,594	39,205
Accounts receivable, net		
Municipalities and other customers (note 3b)	20,823	22,062
Ministry of the Environment and Climate Change	82	144
Harmonized sales tax receivable	1,850	1,751
Prepaid Expenses	352	483
Current portion of investments receivable for water and wastewater facilities (note 2)	826	920
	68,527	64,565
Non-current assets:		
Investments in term deposits (note 3a)	21,827	23,719
Investments receivable for water and wastewater facilities (note 2)	1,434	2,161
Loan receivable - Ontario Infrastructure and Lands Corporation (note 3c)	120,000	120,000
Tangible Capital Assets, net (note 4)	9,834	8,986
	153,095	154,866
Total Assets	221,622	219,431

Statement of Financial Position

As at December 31, 2014

(in thousands of dollars)

Liabilities and Net Assets	December 31, 2014	December 31, 2013
Current liabilities:		
Accounts payable and accrued liabilities	16,306	15,856
Current portion of employee future benefits (note 8a)	3,747	3,093
	20,053	18,949
Long-term liabilities:		
Employee future benefits (note 8a)	12,571	12,855
Net Assets	188,998	187,627
Contingencies (note 7a) and Measurement Uncertainty (note 1e)		
Total Liabilities and Net Assets	221,622	219,431

see accompanying notes to financial statements

On behalf of the Board

Director

Director

Statement of Operations and Change in Net Assets

For the year ended December 31, 2014

(in thousands of dollars)

	December 31, 2014	December 31, 2013
Utility Operations Revenues:		
Utility operations	162,306	157,222
Fees	3,415	2,186
Total Operating Revenues	165,720	159,408
Operating Expenses:		
Salaries and benefits (note 8a and note 8b)	72,031	72,791
Other operating expenses	92,294	85,618
Amortization of tangible capital assets	2,855	3,079
Total Operating Expenses	167,180	161,488
Deficiency of revenue over expenses – Utility Operations	(1,460)	(2,080)
Interest from investments and loans receivable	2,851	2,914
Excess of revenue over expenses	1,391	834
Net Assets, opening balance	187,627	186,813
Adjustment to Net Assets (note 6)	(20)	(20)
Net Assets, ending balance	188,998	187,627

see accompanying notes to financial statements

Statement of Cash Flows

For the year ended December 31, 2014

(in thousands of dollars)

	December 31, 2014	December 31, 2013
Cash Provided by (used for) Operating Activities		
Deficiency of revenue over expense-Utility Operations	(1,460)	(2,080)
Items Not Affecting Cash		
Amortization of Tangible Capital Assets	2,855	3,079
Increase in future employee benefits expense	1,963	3,563
	3,358	4,562
Changes in non-cash operating working capital		
Accounts Receivable	1,202	2,538
Prepaid Expenses	131	(42)
Accounts Payable and Accrued Liabilities	450	(1,342)
Legislated Severance	(1,594)	(1,174)
	189	(20)
Net Cash Flows from operating activities	3,547	4,542
Cash From Investing Activities		
Interest	2,852	2,914
Principal Repaid on Loans	821	904
Decrease/(Increase) in non-current Term Deposits	1,892	(6,661)
Net cash flows from investing activities	5,565	(2,843)
Cash Used in Capital Activities		
Tangible Capital Assets Acquired	(3,703)	(2,323)
Cash Used in Financing Activities		
Changes in Net Assets	(20)	(20)
Increase (decrease) in Cash and Short-Term Investments	5,389	(644)
Cash and Short-Term Investments, Opening Balance	39,205	39,849
Cash and Short-Term Investments, Closing Balance	44,594	39,205

Notes to Financial Statements

December 31, 2014

GENERAL

The Ontario Clean Water Agency (The "Agency") was established on November 15, 1993, under the authority of The Capital Investment Plan Act, 1993 (the "Act").

The Agency's objects include:

(a) assisting municipalities, the Government of Ontario and other persons or bodies to provide water and sewage works and other related services by financing, planning, developing building and operating those works and providing those services;

(b) financing and promoting the development, testing, demonstration and commercialization of technologies and services for the treatment and management of water, wastewater and stormwater;

(c) carrying out the activities described in clauses (a) and (b) in Ontario and elsewhere in a manner that protects human health and the environment and encourages the conservation of water resources; and

(d) with respect to activities described in clauses (a) and (b) that are carried out in Ontario, carrying them out in a manner that supports provincial policies for land use and settlement.

The Agency is exempt from Federal and Provincial income taxes.

1. SIGNIFICANT ACCOUNTING POLICIES

The Agency is classified as a government not-for-profit for financial reporting purposes. These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board. The significant accounting policies are as follows:

(a) Cash and Short-term Investments

Cash and short-term investments, including a portfolio of bonds, are recorded at cost. Accrued interest is recorded in accounts receivable. Bonds are expected to be held until maturity.

Notes to Financial Statements

December 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Tangible Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Tangible Capital Assets are amortized on a straight-line basis as follows:

Computer Software	2-7 years
Information Systems	7 years
Furniture and Fixtures	5 years
Automotive Equipment	4-20 years
Computer Hardware	3-7 years
Machinery and Equipment	5 years
Leasehold Improvements	Life of the lease

(c) Revenue Recognition

Revenue on contracts with clients for the operation of water and wastewater treatment facilities based on a fixed annual price is recognized in equal monthly amounts as earned.

Revenue on contracts with clients based on the recovery of costs plus a percentage markup or recovery of costs plus a fixed management fee is recognized at the time such costs are incurred.

Revenue for additional work for clients outside the scope of the operations and maintenance contract, such as capital repairs on equipment, is recognized when the costs are incurred, and normally includes a pre-determined markup on cost.

(d) Financial Instruments

A financial instrument is an asset that will ultimately be settled in cash.

All financial instruments have been valued at cost, which approximates fair value.

The financial instruments consist of cash and short-term investments, accounts receivable, investments receivable, bond portfolio, term deposits, loans receivable, accounts payable and accrued liabilities, and employee future benefits.

Notes to Financial Statements

December 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A Statement of Remeasurement of Gains and Losses has not been prepared because all financial instruments are valued at cost and there are no changes in fair value to record.

e) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Significant items subject to such estimates and assumptions include the amortization expense, accrued liabilities and employee future benefits. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES

These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed.

The investments receivable are supported by agreements that bear interest at rates between 5.97% and 10.52%. Scheduled principal repayments of the investments are as follows:

(12 Months Beginning January)	*(in thousands of dollars)*
2015	826
2016	579
2017	573
2018	227
2019	26
Thereafter	29
	2,260
Less: Current portion	(826)
	1,434

Notes to Financial Statements

December 31, 2014

2. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES (cont'd)

In August of 1999, the Agency entered into a loan agreement to finance the construction of a water pipeline, which was completed in May 2000. The outstanding loan balance including accumulated interest was $18.6 million at December 31, 2005. The Agency has recognized the loan as fully impaired and accordingly the loan amount of $18.6 million has been reflected in an allowance for loan impairment.

Other than as described in this note, there are no other provisions established for investment receivables.

3. FINANCIAL INSTRUMENTS

(a) Cash and Investments

The Agency has $66.4 million invested in bank balances, term deposits and a bond portfolio as follows:

	(in thousands of dollars)
Bank Balances	15,492
Short term bonds (coupon rates 2.24% to 8.65%)	5,200
Term deposits due within a year (Interest rates 1.91%-1.98%)	23,902
Cash and Short-Term Investments	44,594
Term deposits due within two years (Interest rates 2.17%-2.25%)	21,827
	66,421

The fair value of the bank balances and term deposits approximates carrying value and the fair value of the short-term bond portfolio is $5.107 million.

Notes to Financial Statements

December 31, 2014

3. FINANCIAL INSTRUMENTS (cont'd)

(b) Credit Risk

The maximum exposure to credit risk consists of the total of cash and short-term investments, accounts receivable, investments in term deposits, investments receivable and loans receivable.

The Agency is exposed to low credit risk because receivables are due from municipalities and payment is usually collected in full. Credit rating reviews are performed for non-municipal clients. All bank balances and short-term investments are held by large Canadian chartered banks.

A breakdown of the accounts receivable from municipalities and other customers is as follows:

	(in thousands of dollars)
0-60 days	19,261
61-90 days	233
91-120 days	729
121-150 days	56
More Than 151 days	544
Total Net Accounts Receivable Municipalities and Other Customers	20,823

An account receivable is considered to be impaired when dispute resolution has failed and the account is forwarded to legal counsel for further action. At December 31, 2014, two accounts were considered impaired. The outstanding balances totaled to $0.3 million (2013 - $0.3 million). Net Accounts Receivable includes an Allowance for Doubtful Accounts which is based on a provision for 25% of Accounts Receivable aged greater than 60 Days. The Agency believes that this policy mitigates the risk of incorrect provision.

Notes to Financial Statements

December 31, 2014

3. FINANCIAL INSTRUMENTS (cont'd)

(c) Cash Flow Risk

The Agency has extended a $120 million loan to Ontario Infrastructure and Lands Corporation which matures on March 1, 2023 with a variable interest rate set at four basis points below the average monthly Canadian Dollar Offered Rate. It also has term deposits and bank balances that are sensitive to the prevailing interest rates. As a result, it is exposed to a cash flow risk related to the fluctuations in interest rates.

(d) Other

The Agency is exposed to low risk for electricity and chemical costs because most of the contracts are structured to pass these costs through to the customer.

Other than as described in these notes, the Agency is not exposed to any additional currency, liquidity or other price risk on its financial instruments.

4. TANGIBLE CAPITAL ASSETS

(in thousands of dollars)	Cost	Accumulated Amortization	**Net December 31, 2014**	Net December 31, 2013
Computer Software	6,820	1,738	**5,082**	2,740
Information Systems	5,537	3,640	**1,897**	2,400
Furniture and Fixtures	167	88	**79**	101
Automotive Equipment	5,160	4,480	**680**	1,330
Computer Hardware	3,910	2,418	**1,492**	1,724
Machinery and Equipment	751	382	**369**	404
Leasehold Improvements	377	142	**235**	287
	22,722	12,888	**9,834**	8,986

The Board has approved capital and re-engineering expenditures of up to $14.7 million from fiscal 2012 to 2018 to modernize the Agency's information technology infrastructure.

Notes to Financial Statements

December 31, 2014

5. LEASE COMMITMENTS

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

	(in thousands of dollars)
2015	1,903
2016	1,795
2017	1,633
2018	1,365
2019	922
Thereafter	279
	7,897

6. NET ASSETS

When the Agency was first established, the opening net assets were received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed.

Subsequent adjustments to the opening balance relate to legal costs that were agreed to prior to the establishment of the Agency.

7. CONTINGENCIES

a) Litigation

The Agency is the defendant in a number of lawsuits that arise in the normal course of business. Most of these claims are covered by insurance after the application of a deductible, ranging from $5,000 to $100,000, depending on when the event giving rise to the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time.

Notes to Financial Statements

December 31, 2014

7. CONTINGENCIES (cont'd)

The Ontario Public Service Employees Union (OPSEU) has made an application to the Ontario Labour Relations Board (OLRB) with respect to salary adjustments made to Agency employees working at one of its managed facilities. While the final outcome of this claim cannot be predicted with certainty, should the OLRB rule in OPSEU's favour, it could have a material impact on the Agency's financial position and results of operations.

b) Letters of Credit

The Agency has a line of credit with the Royal Bank of Canada for $10 million. As of December 31, 2014, $4.9 million of this line of credit has been used to provide letters of credit to municipalities in accordance with the terms of their operations and maintenance agreements.

8. RELATED PARTY TRANSACTIONS

(a) Non-Pension Employee Future Benefits

The Agency is responsible for its accrued legislated severance, unpaid vacation, and workers compensation obligations.

The costs of these employee future benefits obligations have been estimated at $16.3 million (2013 - $16.0 million) of which $3.7 million (2013 - $3.1 million) has been classified as current liability. The amount charged to the income statement in 2014 was $2.0 million (2013 - $3.6 million) and is included in salaries and benefits expense in the Statement of Operations and Changes in Net Assets.

Included in employee future benefits obligation is an estimated workers compensation obligation in the amount of $2.7 million (2013 - $3.3 million). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2013.

Notes to Financial Statements

December 31, 2014

8. RELATED PARTY TRANSACTIONS (cont'd)

It is management's opinion that the balance at December 31, 2014 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the updated balance is provided by WSIB.

The cost of other post-retirement, non-pension employee benefits is paid by the Province and therefore is not included in the financial statements.

(b) Pension Plan

The Agency's full-time employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Agency's annual payments of the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Agency. The Agency's annual payments of $4.3 million (2013 - $4.3 million), are included in salaries and benefits in the Statement of Operations and Change in Net Assets.

(c) Other

As a result of the relationship of the Agency with the Province, the following related party transactions exist:

(i) The Agency received revenue of $2.6 million (2013 - $2.4 million) from the Ontario Infrastructure and Lands Corporation for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.

(ii) The Agency received revenue of $2.3 million (2013 - $2.4 million) from the Ministry of the Environment and Climate Change (MOECC) for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients. In addition, the Agency received $0.2 million (2013 - $0.1 million) for the Emergency Preparedness Funding.

Notes to Financial Statements

December 31, 2014

8. RELATED PARTY TRANSACTIONS (cont'd)

(iii) The Agency received revenue of $0.7 million (2013 - $0.9 million) from the Ministry of the Northern Development and Mines for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.

(iv) The Agency has a $120 million loan receivable with Ontario Infrastructure and Lands Corporation, as described in note 3c.

(v) The Agency relies on the Province to process its payroll and administer its benefits, and to obtain some internal audit and legal services. The Province absorbs some of these administrative costs.

(vi) The Agency has a $1.6 million (2013 - $1.5 million) accounts payable to the MOECC for rent proceeds it collects for a property, net of realty taxes paid, managed on behalf of the Ministry.

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